



Good and Bad News for Small Businesses

Capital Allowances

The good news is the Annual Investment Allowance (AIA) is to double to £100,000 for expenditure incurred from 1 April 2010 (6 April 2010 for unincorporated businesses). The cost of all qualifying equipment (not cars or buildings), that falls within the AIA limit can be deducted in full from the business profits in the year of purchase.

About 99% of businesses will now have all their expenditure on equipment covered by AIA, so the cost is deductible in full when incurred. Capital expenditure in excess of the AIA limit receives tax relief at either 10% or 20% per year. Partnerships where one or more of the partners is a company do not qualify for the AIA. Also a group of companies only qualifies for one AIA limit for the whole group.

Loans to shareholders

This is bad news for owner-managed companies. It is quite common for a shareholder/director to take a loan from their company and have that loan forgiven or written-off in a later tax year. At that point the director is taxed on the value of the loan as if it was a dividend. However, HMRC may also insist that the company pays class 1 NICs on the loan write-off where the loan has been substituted for part of the director's remuneration.

Until now the company could claim a deduction in its accounts for the value of the loan written-off as well as any NICs paid on that amount. For loans written-off on or after 24 March 2010 the company cannot claim a deduction in its accounts for the value of the loan, which will increase the cost of forgiving the loan by at least 21%.

If you have loans outstanding from your company we need to discuss how those loans can be repaid in the most tax efficient way, either by paying yourself some extra salary or dividends.



Repay the loan

Tax Data 2010/11

Income Tax

Personal Allowance: £6,475

Rates:

Savings only to £2,440 @ 10%
Earned to £37,400 @ 20%
£37,400 to £150,000 @ 40%
Over £150,000 @ 50%

Tax on dividends:

to £37,400 @ 10%
£37,400 to £150,000 @ 32.5%
above £150,000 @ 42.5%

National Insurance

Class 1 employers:

12.8% over £5,715

Class 1 employees:

11% on £5,715 to £43,875
plus 1% above £43,875

Class 4:

8% on £5,715 to £43,875 plus
1% on profits above £43,875

Class 2: £2.40 per week

Class 3: £12.05 per week

Capital Gains Tax

All gains taxed at 18%

Annual exemption: £10,100

Inheritance Tax

Nil rate band: £325,000

Excess taxed at 40% on death.

Pension Contributions

With no earnings: £3,600 gross

Otherwise: 100% of earnings.

*Tax relief cap: £255,000

Pension fund cap: £1.8 million

*Potential charges over

£20,000

Corporation Tax

Small co: 21% to £300,000

Marginal: 29.75% to £1.5m

Large co: 28% over £1.5m

VAT Rates:

Reduced: 5%

Standard: 17.5%

Turnover thresholds

1 April 2010

Registration £70,000

Deregistration £68,000

Flat rate small business:

£150,000

Cash & Annual Accounting:

£1.35m

Tax free mileage rates

Own car:

Up to 10,000 miles: 40p

(excess 25p)

Company car (from 1 Dec 09):

	Petrol	Diesel	LPG
To 1400cc	11p	11p	7p
To 2000cc	14p	11p	8p
2000cc +	20p	14p	12p

Taxes On Property

Stamp Duty

The headline give-away in this Budget is relief from Stamp Duty Land Tax (SDLT) due on purchases of residential properties that cost up to £250,000. The catch is this zero rate can only be claimed where all the purchasers are first-time buyers who intend to occupy the property as their main home. It may be difficult to define who exactly is a first-time buyer. The relief is only available for purchases completed between 25 March 2010 and 24 March 2012.

This tax relief will be funded by an additional 5% rate of SDLT to be introduced on purchases of all residential properties costing £1 million or more from 6 April 2011. Note this tax increase is expected to be permanent, while the tax relief for first-time buyers only applies for two years. But the higher rate only applies from April 2011 so if you are

planning to buy, or sell a valuable home, get a move on!

Inheritance Tax

Inheritance tax (IHT) can apply to any type of asset, but it is felt most keenly where the deceased's estate includes a valuable property. The nil rate band on which no IHT is paid is to be frozen at £325,000

until 5 April 2015. The value of estates above this level are taxed at 40% on death. Although widows and widowers can benefit from the transfer of any unused nil rate band from their deceased spouse or civil partner, this freezing of the nil rate band represents a tax rise in real terms.



Good for first time buyers

No Change Is Good

Capital Gains Tax

The big surprise in this Budget is the rate of capital gains tax (CGT) has been kept at 18% for 2010/11. The CGT annual exemption is also frozen for 2010/11 at £10,100, with the exemption for trusts set at £5,050.

Even better news for ambitious business owners is that entrepreneurs' relief is to be extended. Entrepreneurs' relief reduces the effective rate of CGT to 10% on gains arising on the disposal of businesses and certain business assets. Taxpayers can only claim this relief on up to £1 million of gains made from 5 April 2008 to the end of their life. This lifetime limit is to be increased to £2 million for disposals made after 5 April 2010. No additional relief is given for gains realised before 6 April 2010 that exceed £1 million.

Corporation Tax

The corporate tax rate for small profits remains frozen at 21% for the financial year that runs from 1 April 2010 to 31 March 2011 (2010/11). The small profits rate applies where a single company has profits of no more than £300,000. Companies with profits of £1.5 million or more pay corporation tax at 28%. Profits that fall in the band £300,000 to £1.5 million are taxed at a marginal rate of 29.75%.

Where a company is part of a group or has associated companies the profit thresholds that determine where each tax rate applies are reduced by the number of associated or group companies. The more companies you control the higher the corporation tax rate paid by each company.

Business Rates



Appeal the value

Business rates are a big fixed cost for small businesses, as they cannot easily move to smaller premises if sales decline. What's more the rateable value of commercial properties is revised every five years, normally upwards. The latest revaluation takes effect from 1 April 2010, but it is based on the market value of the property at 1 April 2008, when the value of all commercial property was at a record high.

There are two ways to reduce your business rates bill:

1. Appeal against the rateable value of the property. This needs to be done for each valuation period separately. If you want to backdate the valuation

review to 1 April 2005 you need to appeal by 31 March 2010.

2. Apply for small business rates relief where the rateable value of the property is less than £15,000. This cap rises to £18,000 on 1 April 2010.

The Budget also announced a temporary increase in business rates relief for properties in England with rateable values of up to £6,000. Businesses occupying such properties can claim full exemption from business rates for 12 months from 1 October 2010. In addition businesses occupying English properties with rateable values of up to £12,000 will be able to claim a tapered reduction in their business rates from that date.

Different business rates relief schemes apply for properties in Wales and Scotland, details of which can be obtained from those devolved governments.